American Bankers Association
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Michael L. Gullette
Vice President – Accounting and Financial Management
202-663-4986
mgullette@aba.com

December 11, 2013

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Via website submission: comments@pcaobus.org

Re: PCAOB Rulemaking Docket Matter No. 034 – *Proposed Auditing Standards – The Auditor's Report on an Audit of Financial Statements when the Auditor Expresses and Unqualified Opinion; The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report; and Related Amendments to PCAOB standards*

To Whom It May Concern:

The American Bankers Association (ABA[1]) appreciates the opportunity to comment on *Proposed Auditing Standards – The Auditor's Report on an Audit of Financial Statements when the Auditor Expresses an Unqualified Opinion; The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report; and Related Amendments to PCAOB standards (Proposed Standard*). Bankers are preparers of financial statements that are critical in the efficient functioning of the capital markets and overall economy. Bankers are also significant users of audited financial statements, as credit analysts must rely on the integrity of audited financial statements in their evaluation of overall credit risk. From a banker's perspective, there are two major aspects of the Proposed Standard: First, if approved, the Proposed Standard will change the auditor's reporting model by requiring the auditor to communicate in the auditor's report "critical audit matters" that were addressed during the audit of the current period's financial statements. Second, the Proposed Standard will add new elements to the auditor's report related to responsibility for, and evaluation of, other information in annual reports containing the audited financial statements and the related auditor's report. For all intents and purposes, this other information is included throughout a company's Form 10-K.

Discussion of Critical Audit Matters (CAMs) Must be Reconsidered

It is noted within the discussion related to the Proposed Standard that many investors have requested improvements in the relevance of the auditor's report and that communicating CAMs likely would provide meaningful information about the auditor's work in performing the audit. Examples of CAM in the document include the use of new financial models, a company's competitive position, the illiquid nature of relevant securities markets, and a company's internal control deficiencies. We believe providing such information as part of the auditor's report could

[1] The American Bankers Association represents banks of all sizes and charters and is the voice for the nation's $14 trillion banking industry and its two million employees.

be misconstrued as reporting on problem areas that were not resolved to the auditor's satisfaction. Moreover, CAM documents maintained in auditor work papers currently serve largely as guidance for the audit engagement partner and the related reviewing partners to ensure that they are aware of the important audit risks. ABA believes the annual report should focus on the company and not on the difficulties individual auditors have in performing the audit. With this in mind, we believe these matters do not belong in the auditor's report[2] and are concerned that implementing the Proposed Standard will introduce unintended consequences.

The objective of a registrant's annual report on Form 10-K is to assist the investor in assessing the amount, timing, and uncertainty of future cash flows of the company by providing a comprehensive overview of the company's financial condition. We acknowledge that the quality of that assessment may depend upon whether a company's internal controls are sufficient. However, even if we assume the disclosures within the Proposed Standard work as intended, with the exception of centralizing the internal control information to help investors make the assessment, we see no incremental value for the investor from requiring additional CAM information. This is because, within the annual report, this information already exists. Currently, investors receive and evaluate this information through review of a company's critical accounting policies and significant estimates (located within the audited financial statements), as well as the company's business and operating trends and financial and operating risks, and the company's assessment and the auditor's attestation of internal controls over financial reporting in accordance with the Sarbanes-Oxley Act (included elsewhere in the Form 10-K). With that in mind, however, connecting the dots can be challengingfor investors, considering the hundreds of pages of disclosures and discussion within a typical bank's annual report. Therefore, as an alternative to the proposed auditor discussion of CAMs, we recommend that an index of relevant information (such as the information referred to above) be provided by the registrant within the annual report.

We also note that a "control deficiency less severe than a material weakness" will be a common issue among CAMs. This challenges the current definition of a significant deficiency in internal control, in which there is less than a reasonable possibility that a material misstatement of the company's financial statements will not be prevented or detected on a timely basis[3]. We believe such an internal control deficiency – one that does not lead to a reasonable possibility of a material misstatement – is irrelevant to the investor's assessment regarding the reliability of the financial statements. Such a disclosure puts into question the auditor's opinion related to the overall financial statements and also, since significant deficiencies in internal controls are not necessarily disclosed in annual reports, changes the relationship the auditor and management

[2] Because of the nature of issues proposed to be addressed within CAMs, we believe a discussion of CAMs within an auditor's report may necessitate additional footnote disclosures within the audited financial statements – disclosures that now exist within Management's Discussion and Analysis.

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[3] We assume that such control deficiencies that are less than material weaknesses will not qualify as significant deficiencies, as anything less than a significant deficiency would not merit attention by a company's audit committee. We, therefore recommend that, if the Proposed Standard is approved, any final guidance specifically refer to "significant deficiencies in internal control" to avoid any confusion as to its meaning.

have with investors. We believe that management should continue to be the contact point with investors related to relevant internal control issues within the annual report, rather than the auditor. The Proposed Standard appears to breach that relationship in this circumstance.

We believe these consequences are not intended by the PCAOB. We believe the PCAOB would agree with ABA that the registrant should be the focus of the annual report and that management (via the audit committee) is responsible for internal control oversight, based on information from auditors. Therefore, in order to address investor concerns about the risk of material misstatement, as we propose above, a new index of internal control-related information should enhance an investor's ability to assess the reliability of the financial statement assertions.

Auditor Procedures Related to Other Financial Information Must be Field Tested

A large expectation gap may currently exist with auditor procedures over other information included in a company's annual report that is outside the information included within the audited financial statements, and we support the PCAOB's efforts to examine the issue. However, we are concerned that, given the large amount of unaudited financial information found throughout an annual report which may be sourced from databases that have not been subjected to testing under Sarbanes Oxley, a greater expectation gap may be created as a result of the Proposed Standard.

Non-GAAP information, as well as subjective, forward-looking financial information may be perceived to be subject to auditor examination, when, in reality, there has only been a review for consistency with other information in the audited financial statements. Because of the Proposed Standard, we believe auditors will feel pressured to expand their review procedures, unnecessarily resulting in greater costs for auditors and preparers. We fear that an index may further be necessary to separate what has been subject to audit, what has been "evaluated" for consistency with audited information, and what is not objectively verifiable, even for consistency. Such a table would be voluminous, difficult to maintain, and, over time, provide very little incremental value to investors.

With this in mind, prior to approving a final standard, we recommend field testing be performed to determine how auditing firms will apply the guidance to publicly-held banking institutions of all sizes. While we understand that certain PCAOB staff members believe that auditor procedures related to most large banks will not increase as a result of the Proposed Standard, we are not as comfortable with that view and believe that a new standard will increase audit fees for all financial institutions. We urge the PCAOB to carefully weigh these costs and any unintended consequences identified in the field testing against the benefits the PCAOB believes investors will obtain.

Thank you for your attention to these matters and for considering our views. Please feel free to contact me (mgullette@aba.com; 202-663-4986) if you would like to discuss our views.

Sincerely,

Michael L. Gullette